

## Message Text

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SUBJECT: PRESIDENTIAL VISIT: SUBSTANTIVE BACKGROUND  
FOR MRS. CARTER AND MRS. VANCE

REF: STATE 68547 (PARA 6B)

1. FOLLOWING IS SUBSTANTIVE GENERAL BACKGROUND  
INFORMATION ON VENEZUELA WHICH MAY BE OF USE TO  
MRS. CARTER AND MRS. VANCE PER REFTEL.

### 2. POLITICAL BACKGROUND

VENEZUELA IS ONE OF THE FEW DEMOCRACIES IN LATIN  
AMERICA, PROUDLY CELEBRATING IN JANUARY OF THIS YEAR  
ITS TWENTIETH ANNIVERSARY OF THE OVERTHROW OF THE  
PEREZ JIMENEZ DICTATORSHIP. THERE HAVE BEEN FOUR  
PEACEFUL ELECTIONS DURING THE ENSUING YEARS, INCLUDING  
ONE IN 1968 THAT INVOLVED A TRANSFER OF POWER BETWEEN  
THE MAJOR PARTIES, FROM THE DEMOCRATIC ACTION  
PARTY (AD) TO THE SOCIAL CHRISTIAN PARTY (COPEI).  
BOTH AD AND COPEI ARE DEVELOPMENT-MINDED AND NEAR  
THE CENTER OF THE POLITICAL SPECTRUM.

THE CONSTITUTION OF VENEZUELA GUARANTEES FREEDOM OF RELIGION,  
SPEECH AND ASSEMBLY AND THESE FREEDOMS DO, IN FACT, EXIST. IT ALSO  
PROVIDES FOR A STRONG CENTRAL GOVERNMENT WITH SEPARATE EXECUTIVE,  
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LEGISLATIVE AND JUDICIAL BRANCHES. THE CENTRAL GOVERNMENT HAS THE  
MAJOR RESPONSIBILITY FOR THE LARGE AND DIVERSE ECONOMIC DEVELOPMENT  
PROGRAM IN WHICH VENEZUELA IS ENGROSSED. THE 15-MEMBER SUPREME  
COURT, ELECTED BY CONGRESS, HEADS THE JUDICIAL BRANCH. IT HAS THE  
POWER OF JUDICIAL REVIEW.

EVERY FIVE YEARS NATIONAL ELECTIONS ARE HELD (THE NEXT ELECTIONS  
ARE IN DECEMBER OF THIS YEAR) IN WHICH THE PRESIDENT, MEMBER OF

CONGRESS, STATE LEGISLATURES AND CITY COUNCILS ARE DIRECTLY ELECTED ON PARTY SLATES. THE PRESIDENT CAN BE ELECTED TO ONLY ONE TERM AND MAY NOT BE REELECTED UNTIL TEN YEARS FOLLOWING THE END OF THAT TERM.

PRESIDENT PEREZ HEADS A 22-MEMBER COUNCIL OF MINISTERS, WHICH HE APPOINTED, AND EXERCISES HIS CONSTITUTIONAL ROLE AS COMMANDER-IN-CHIEF OF THE ARMED FORCES. HE ALSO APPOINTS THE GOVERNORS OF THE 22 STATES AND OF THE FEDERAL DISTRICT.

ALTHOUGH JOCKEYING HAS BEGUN, THE ELECTION CAMPAIGN OFFICIALLY OPENS APRIL 1. THE NEW PRESIDENT ELECTED IN DECEMBER WILL TAKE OFFICE IN MARCH 1979. THE GOVERNING DEMOCRATIC ACTION PARTY CHOSE THE PARTY'S SECRETARY GENERAL, DEPUTY LUIS PINERUA ORDAZ, TO BE ITS STANDARD BEARER. COPEI NOMINATED AS ITS CANDIDATE LUIS HERRERA CAMPINS, A LAWYER, LONG-TIME MEMBER OF THE CHAMBER OF DEPUTIES AND PARTY LEADER.

AS THE CAMPAIGN PROGRESSES, VENEZUELAN WILL ONCE AGAIN REVIEW THOSE POLITICAL, ECONOMIC AND SOCIAL ISSUES WHICH AFFECT THEM INDIVIDUALLY AND COLLECTIVELY. THEIR BASIC VIEWS, POSITIONS AND THE ISSUES THAT EXIST ARE SUMMARIZED BELOW.

## II. VENEZUELAN ISSUES AND POSITIONS

THE PRINCIPAL ISSUE IN CONGRESS DURING THE PEREZ ADMINISTRATION AND CONTINUING INTO 1975 IS THE NATIONALIZATION OF THE VENEZUELAN PETROLEUM INDUSTRY, MOST OF WHICH WAS CONTROLLED BY FOREIGN-OWNED COMPANIES WHOSE OIL CONCESSIONS WERE SCHEDULED TO BEGIN TO EXPIRE IN 1983. THE NATIONALIZATION LAW WAS APPROVED BY CONGRESS IN LIMITED OFFICIAL USE

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AUGUST 1975, AND NATIONALIZATION TOOK EFFECT ON DEC. 31, 1975. THE TRANSITION HAS BEEN SMOOTH. FINAL EVALUATION OF THE COMPANIES' FORMER ASSETS HAVE RECENTLY BEEN MADE BUT SOME IMPORTANT TAX ISSUES ARE STILL TO BE SETTLED.

THE HUGE INFLUX OF OIL FUNDS INTO VENEZUELA AND THE OVERHEATED ECONOMY HAVE CREATED INFLATIONARY PRESSURES AND GREATLY INCREASED THE COST OF LIVING.

CONSIDERABLE GOVERNMENT EFFORT AND EXPENDITURE HAVE IMPROVED HEALTH, WELFARE, EDUCATION AND OTHER SOCIAL SERVICES IN GENERAL, BUT THEY STILL FALL SHORT OF NEED. INADEQUATE EDUCATIONAL FACILITIES HAVE CAUSED RECENT STUDENT UNREST. THESE, TOGETHER WITH CRIME, PERSONAL SAFETY AND CORRUPTION IN GOVERNMENT HAVE BECOME CAMPAIGN ISSUES.

THE INCUMBENT PRESIDENT (WITH POPULAR SUPPORT) HAS SHOWN AN UNUSUAL INTEREST IN ACHIEVING A POSITION OF PROMINENCE AMONG THIRD WORLD COUNTRIES. THERE HAS BEEN CONCERN FOR AND FINANCIAL ASSISTANCE TO THE NON-OIL PRODUCING LESS DEVELOPED COUNTRIES (LDCS) AND A PARTICULAR INTEREST IN THE CARIBBEAN BASIN COUNTRIES. VENEZUELA SEES ITSELF AS A SPOKESMAN FOR THE THIRD WORLD, SEEKING MORE EQUITABLE SHARING IN THE WORLD ECONOMY, IMPROVED TRADING POSITIONS FOR LDCS, MORE ASSISTANCE FROM INDUSTRIAL (AND OIL-RICH) COUNTRIES TO NON-OIL PRODUCING LDCS, AND REDUCTION OF OLD DEBT

OWED TO INDUSTRIALIZED COUNTRIES BY LDCS.

THERE IS A STRONG COMMITMENT TO THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC) AND THE HIGHER PRICES FOR OIL WHICH THIS CARTEL CAN EXTRACT FROM CONSUMING STATES (SEE APPENDIX).

THERE IS A COMMITMENT TO REGIONAL INTEGRATION, E.G. THE ANDEAN PACT AND THE LATIN AMERICAN ECONOMIC SYSTEM (SELA). VENEZUEAL IS COMMITTED TO THIS REGIONAL CONCEPT AND APPEARS TO BE WILLING TO WEATHER THE LONG AND EXTENSIVE NEGOTIATIONS THAT WILL BE NECESSARY TO MAKE REGIONALISM A SUCCESS.

VENEZUELA IS COMMITTED TO FURTHERANCE OF DEMOCRATIC INSTITUTIONS, AND HUMAN RIGHTS INTERNATIONALLY, SUPPORT OF NUCLEAR NON-PROLIFERATION AND OPPOSITION TO INTERNATIONAL TERRORISM.

THERE IS A CONTINUED GENERAL INTEREST IN:

1. GOOD RELATIONS WITH THE UNITED STATES; THE U.S. IS VENEZUELA'S LIMITED OFFICIAL USE

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MAJOR TRADING PARTNER, BOTH COUNTRIES ARE OPERATING DEMOCRACIES WITH MANY SIMILAR DOMESTIC AND INTERNATIONAL VIEWPOINTS.

2. SETTLEMENT OF THE PANAMA CANAL ISSUE; THE VENEZUELAN BELIEVE THAT THE PROPOSED TREATY REVISIONS WILL SIGNIFICANTLY IMPROVE U.S.-LATIN AMERICAN RELATIONS.

3. THE ACTIVITIES OF CUBAN EXILES IN VENEZUELA, AND CUBA'S ROLE IN THE CARIBBEAN AND ELSEWHERE ABROAD. SINCE THE CUBAN INTER-FERENCE IN DOMESTIC VENEZUELAN AFFAIRS IN THE EARLY SIXTIES, VENEZUELA HAS BEEN CONCERNED ABOUT CASTRO'S ACTIVITIES. VENEZUELA HAS A RATHER LARGE (30,000) COMMUNITY OF CUBAN EXILES, WITH THE CONCOMITANT EXTREMISM THAT OCCASIONALLY HAS BEEN OUR EXPERIENCE WITH A SMALL PROPORTION OF THE CUBAN COMMUNITY IN THE UNITED STATES.

4. VENEZUELA'S UNRESOLVED BORDER DISPUTES WITH COLOMBIA AND GUYANA.

5. SOVEREIGNTY AND BORDER PROBLEMS INVOLVING BOLIVIA-CHILE-PERU AND BELIZE-GUATEMALA.

THE PRESENT GOVERNMENT HAS MADE VARYING DEGREES OF PROGRESS ON THE ABOVE DOMESTIC ISSUES AND ON THOSE INTERNATIONAL ISSUES IT IS CAPABLE OF INFLUENCING. BUT MUCH REMAINS TO BE DONE, AND THE SUCCESSES AND SHORT-FALLS OF THE PEREZ ADMINISTRATION WILL PROVIDE THE MATERIAL FOR AN ACTIVE ELECTION YEAR.

### III. ECONOMIC BACKGROUND

AS A MEMBER OF THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC), VENEZUELA DERIVES MOST OF ITS INCOME FROM THE PETROLEUM SECTOR. IN 1977, THE PETROLEUM SECTOR WAS RESPONSIBLE FOR ABOUT 95 PCT OF EXPORT EARNINGS, 65 PCT OF BEDGETARY REVENUE AND 38 PCT OF GNP.

INCREASES IN WORLD PRICES FOR PETROLEUM SINCE 9173 HAVE GIVEN THIS COUNTRY THE HIGHEST PER CAPITA INCOME IN LATIN AMERICA (ABOUT \$2500) AND ENABLED IT TO FINANCE A MAJOR DEVELOPMENT PLAN INVOLVING ABOUT \$28 BILLION IN INVESTMENTS DURING THE FIVE-YEAR PERIOD ENDING IN 1980.

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BUT THE INFLUX OF MONEY HAS CAUSED PROBLEMS AS WELL. RAPID GROWTH OF THE MONEY SUPPLY AND A TRIPLING OF GOVERNMENT EXPENDITURES SINCE 1973 HAVE FORCED PRICES UPWARD AND MADE VENEZUELA MORE DEPENDENT ON IMPORTS TO SUPPLEMENT LOCAL SOURCES OF SUPPLY FOR ALMOST ALL TYPES OF GOODS AND SERVICES.

DURING THE YEAR 1978 IMPORT PAYMENTS ARE EXPECTED TO EXCEED EXPORT EARNINGS AND VENEZUELA WILL EXPERIENCE ITS FIRST BALANCE OF TRADE DEFICIT IN YEARS. ALTHOUGH IMPORT RESTRICTIONS OF SOME TYPE ARE TO BE EXPECTED THIS YEAR. BALANCE OF PAYMENTS CONSIDERATIONS WILL NOT APPRECIABLY CONSTRAIN VENEZUELA'S AMBITIOUS DEVELOPMENT PROGRAMS, IN PART BECAUSE THE GOVERNMENT PLANS TO BORROW A SUBSTANTIAL AMOUNT FROM FOREIGN CREDITORS DURING THE CURRENT YEAR, AND ALSO BECAUSE THE COUNTRY HAS LARGE (OVER \$7 BILLION) RESERVES OF HARD CURRENCY TO FINANCE THE DFICIT.

A THIRD AREA OF CONCERN IS THE LEVEL OF GOVERNMENT EXPENDITURES WHICH HAVE TRIPLED SINCE 1973 TO APPROXIMATELY \$12 BILLION. THE GOVERNMENT HAS PROMISED TO HOLD EXPENDITURES DURING 1978 TO APPROXIMATELY THE 1977 LEVEL. BUT 1978 IS AN ELECTION YEAR AND IT WILL BE DIFFICULT FOR THE EXISTING GOVERNMENT TO TAKE THE DIFFICULT STEPS (E.G. CREDIT RESTRICTIONS, ADDITIONAL TAXES) NEEDED TO RECTIFY THE SITUATION. THIS PROBABLY WILL BE LEFT TO THE NEW GOVERNMENT.  
VAKY

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